



Report of the auditor-general to the North West provincial legislature and the council on the Madibeng Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Madibeng Local Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2018, the statement of financial performance, the statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Receivables from exchange and non-exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange and non-exchange transactions due to unreconciled differences between the financial statements and the accounting records. I was unable to confirm these receivables from exchange and non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from exchange transactions of R219 140 094 (2017: R337 256 938) as disclosed in note 7 and receivables from non-exchange transactions of R432 742 768 (2017: R171 873 092) as disclosed in note 8 to the financial statements was necessary.

Cash and cash equivalents

4. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to unreconciled differences between the financial statements and the accounting records. I was unable to confirm these cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustment to bank balances of R28 149 723 (2017: R32 263 215) included in cash and cash equivalents of R33 691 839 (2017: R33 365 573) as disclosed in note 9 to the financial statements, was necessary.

Investment property

5. The municipality did not disclose in the financial statements, the methods and significant assumptions applied in determining the fair value of investment property as required by GRAP 16, *Investment property*.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to differences between the financial statements and accounting records. In addition, the municipality did not have adequate systems in place to record all payables. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any adjustment to payables from exchange transactions of R534 051 142 (2017: R583 879 090) as disclosed in note 11 to the financial statements or the related expenditure and accumulated surplus, was necessary.

Operating lease liability

7. The municipality did not correctly account for the operating lease liability as required by GRAP 13, *Leases* due to the incorrect calculation of the operating lease expense on a straight-line basis over the lease term and due to differences between the accounting records and the financial statements. Consequently, the operating lease liability disclosed on the statement of financial position and the lease rentals on operating lease expense as disclosed in note 37 to the financial statements were understated by R24 332 847. Additionally, the minimum future lease payments as disclosed in note 37 to the financial statements was overstated by the same amount.

Service charges

8. The municipality incorrectly recognised revenue for service charges as required by GRAP 9, *Revenue from exchange transactions*, due to the incorrect recording of a correction to revenue of the previous financial year, in the current financial year. This resulted in revenue from service charges and the accumulated surplus in the current year being understated and receivables from exchange transactions and revenue from service charges for 2017 being overstated by R63 970 929. Furthermore I was unable to obtain sufficient appropriate audit evidence for service charges billed due to the non-submission of supporting documents. I was unable to confirm these service charges by alternative means. Consequently, I was unable to determine whether any further adjustment relating to service charges of R660 157 651 (2017: R682 166 627) as disclosed in note 20 to the financial statements, was necessary.

Interest received

9. I was unable to obtain sufficient, appropriate audit evidence for interest charged on trade and other receivables due to the non-submission of documents. I was unable to confirm these interest charged on trade and other receivables by alternative means. Consequently, I was unable to determine whether any adjustment relating to interest charged on trade and other receivables of R83 818 399 included in interest received of R90 896 445 as disclosed in note 22 to the financial statements, was necessary.

Property rates

10. The municipality did not appropriately account for property rates as required by GRAP 23, *Revenue from non-exchange transactions*, due to tariffs charged being different from tariffs approved by the council. Consequently, property rates disclosed in note 26 to the financial statements and receivables from non-exchange transactions disclosed in note 8 to the financial statements were overstated by R35 327 467.

Bulk purchases

11. I was unable to obtain sufficient, appropriate audit evidence for bulk purchases due to the status of the accounting records and the non-submission of information in support of bulk purchases. I was unable to confirm these expenses by alternative means. Furthermore, the municipality did not appropriately account for bulk purchases as required by GRAP 1, *Presentation of financial statements*, as expenditure were not recorded on the accrual basis.



The municipality's system did not allow for the performance of alternative procedures to determine the extent of this misstatement. Consequently, I was unable to determine whether any adjustment relating to bulk purchases of R505 967 738 disclosed in note 29 to the financial statements, was necessary.

Other operational expenses

12. During 2017, the municipality made payments of R14 293 740 and unauthorised debit orders and credit card payments of R842 770 to fictitious suppliers, due to a lack of adequate systems that detect and prevent fraudulent activities on the bank accounts and expenditure payments. As the municipality has not yet corrected these payments, the other operational expenses for 2017 were still overstated by R15 136 510. Additionally, there was a resultant impact on the deficit for the previous year and the accumulated surplus as disclosed in the financial statements.
13. The municipality did not appropriately account for expenditure as required by GRAP 1, *Presentation of financial statements*, due to incorrect classification of expenditure and recording of expenditure in the incorrect period. Consequently, repairs and maintenance included in other operational expenses disclosed in note 35 to the financial statements was overstated by R44 202 361, bulk purchases disclosed in note 29 to the financial statements was understated by R23 884 964 and payables from exchange transactions disclosed in note 11 to the financial statements was understated by R20 317 401. Furthermore, I was unable to obtain sufficient appropriate audit evidence for other operational expenses due to non-submission of information requested. I was unable to confirm these other operational expenses by alternative means. Consequently, I was unable to determine whether any further adjustment relating to other operational expenses of R245 504 394 (2017: R231 320 144) as disclosed in note 35 to the financial statements, was necessary.

Debt impairment

14. I was unable to obtain sufficient appropriate audit evidence for the debt impairment due to unreconciled differences between the financial statements and the accounting records. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustment to debt impairment expense of R128 997 789 as disclosed in note 31 to the financial statements, was necessary.

Cash flow statement

15. The calculation of the net cash flows from operating activities, net cash flows from investing activities and net cash flows from financing activities for both the current and prior periods, did not appropriately account for cash and non-cash items as required by GRAP 2, *Cash flow statements*. The municipality's system did not allow for the performance of alternative procedures to determine the full extent of these misstatements. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the net cash flows from operating activities, net cash flows from investing activities and net cash flows from financing activities disclosed in the cash flow statement and the notes thereto.

Statement of comparison of budget and actual amounts

16. The municipality did not appropriately present budgeted and actual amounts as required by GRAP 24, *Presentation of budget information* in the financial statements. The amounts disclosed as final budget and actual amounts for the period did not agree to the adjustment budget and the accounting records respectively. Consequently, there was a resultant impact on the variances disclosed. The statement of comparison of budget and actual amounts furthermore do not disclose the explanations for some material variances between the actual and budgeted amounts in the statement of financial performance.



Commitments

17. During 2017, I was unable to obtain sufficient appropriate audit evidence for commitments due to differences between the financial statements and the accounting records. I was unable to determine whether any adjustment to commitments of R311 487 130 was necessary. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. I was still unable to confirm these commitments by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
18. The municipality did not appropriately disclose commitments as required by GRAP 17, *Property, plant and equipment*, due to differences between the financial statements and the accounting records. Consequently, commitments as disclosed in note 41 to the financial statements was overstated by R145 429 524.

Contingencies

19. I was unable to obtain sufficient appropriate audit evidence for contingencies due to unreconciled differences between the financial statements and the accounting records. I was unable to confirm these contingencies by alternative means. Consequently, I was unable to determine whether any adjustment to contingencies of R73 469 912 as disclosed in note 43 to the financial statements was necessary.

Prior period errors

20. I was unable to obtain sufficient appropriate audit evidence for the prior period errors as disclosed in note 44 to the financial statements, due to the status of the accounting records. I was unable to confirm these adjustments by alternative means. In addition, the municipality did not correctly disclose all adjustments made to correct prior period errors nor the nature of the prior period errors in accordance with GRAP 3, *Accounting policies, estimates and errors*. Consequently, I was unable to determine whether any further adjustments to prior period errors disclosed in note 44 were necessary.

Unauthorised expenditure

21. Section 125 of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) requires the disclosure of unauthorised expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for the overspending in 2017 as the municipality did not calculate the overspending of individual votes within the budget. I was also unable to obtain sufficient appropriate audit evidence for the adjustments to the opening balance of unauthorised expenditure due to non-submission of information requested. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure of R1 593 652 097 (2017: R1 593 652 097) as disclosed in note 48 to the financial statements, was necessary.

Irregular expenditure

22. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R56 257 572 (2017: R76 107 571) in contravention of the supply chain management requirements, which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure of R1 385 607 077 (2017: R1 324 693 856) as disclosed in note 50 to the financial statements.

Fruitless and wasteful expenditure

23. Section 125 of the MFMA requires the disclosure of fruitless and wasteful expenditure incurred. The municipality disclosed unauthorised payments of R10 189 419 as fruitless and wasteful expenditure although it does not meet that definition. Consequently, fruitless and



wasteful expenditure was overstated by R10 189 419. Furthermore, the municipality made payments of R9 397 612 that were regarded as fruitless and wasteful expenditure, but was not included in the fruitless and wasteful expenditure disclosed. As the municipality did not quantify the full extent of fruitless and wasteful expenditure, it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment to fruitless and wasteful expenditure of R31 021 229 disclosed in note 49 to the financial statements, was necessary.

Distribution losses

24. Section 125(2)(d)(i) of the MFMA requires the disclosure of material losses. I was unable to obtain sufficient appropriate audit evidence to recalculate the distribution losses relating to electricity and water due to a lack of adequate accounting records and inadequate billing processes. Consequently, I was unable to determine whether any adjustment to the distribution losses as disclosed in note 52 to the financial statements, was necessary.

Aggregation/accumulation of immaterial uncorrected misstatements

25. The financial statements were materially misstated due to the cumulative effect of a number of individually immaterial uncorrected misstatements. The following items included in current assets of R768 629 394 were misstated:

- VAT receivable of R62 239 182 was overstated by R6 485 833

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

- Consumable stores of R9 016 861 included in inventories of R9 514 533
- Prepayments of R7 259 732

Consequently, I was unable to determine whether any further adjustments to the disclosure of these items in the financial statements, were necessary.

Emphasis of matter

26. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material losses

27. As disclosed in note 9 to the financial statements, material losses of R31 504 247 were incurred as a result of an impairment of a short term deposit in VBS Mutual bank.

Other matters

28. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

29. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

30. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

31. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
32. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

33. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
34. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit of the [consolidated and separate financial statements]. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

35. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
36. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
37. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:



Development priorities	Pages in the annual performance report
KPA 2: Basic service delivery and infrastructure development	x – x

38. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
39. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 2: Basic service delivery and infrastructure development

Objective: To provide basic municipal services (incl. street lighting) in accordance with approved budget & set targets

40. Reported strategic objectives were not consistent when compared with the planned strategic objectives. The planned objective in the service delivery and budget implementation plan (SDBIP) was "To provide basic municipal services (incl. street lighting) in accordance with approved budget & set targets", but the reported objective per the annual performance report referred to "to provide basic municipal services (incl. street lighting) in accordance with approved budget."

Indicator: Number of 10 000 KVA transformer installed

41. The planned target for the indicator was to install one 10 000 KVA transformer in Oukasie by 30 June 2018, but the reported achievement referred to "Transformer delivered to site, installation will be done in July 2018 and project will be completed during September 2018 [90%]". Due to the inconsistent reporting, I was unable to obtain sufficient appropriate audit evidence for the reported achievement. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the measures taken to improve performance. This was due to limitations placed on the scope of my work. I was unable to confirm the measures taken to improve performance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement and the measures taken to improve performance reported in the annual performance report.

Indicator: Number of township established

42. The planned target for the indicator was 2 townships established in Bokfontein ext. 4 & 5 by 30 June 2018, but the reported achievement referred to "50% achievement based on the progress of the project". Due to the inconsistent reporting, I was unable to obtain sufficient appropriate audit evidence for the reported achievement. This was due to limitations placed on the scope of my work. I was unable to obtain sufficient appropriate audit evidence for the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement reported in the annual performance report.

Indicator: Percentage of water quality in compliance with SANS 241 maintained

43. The planned target for the indicator was 100% water quality maintained in compliance of SANS 214 by 30 June 2018, but the reported achievement referred to "12 samples for Brits WTW complied, 12 samples for the distribution network complied, 12 random sampling internally and all complied, 12 samples for Rand water supply system complied Full SANS analysis report completed [100%]". Furthermore, I was unable to obtain sufficient appropriate audit evidence for the reported achievement due to the indicator and the target not being well

defined and specific respectively and for the measures taken to improve performance due to limitations placed on the scope of my work. I was unable to confirm the reported achievement and the measures taken to improve performance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement and the measures taken to improve performance reported in the annual performance report.

Indicator: Number of yellow fleet upgraded (Purchasing of TLB, Grader + Front loader)

44. The planned target for the indicator was 3 Yellow Fleet upgraded (purchasing of TLB, Grader + Front loader) by 30 June 2018, but the reported achievement referred to "3 X Yellow fleet upgraded (purchasing of TLB, Grader + Front loader) (100%)". Furthermore, I was unable to obtain sufficient appropriate audit evidence for the reported achievement due to the indicator and the target not being well defined and specific respectively and for the measures taken to improve performance due to limitations placed on the scope of my work. Consequently, I was unable to determine whether any adjustments were required to the achievement and the measures taken to improve performance reported in the annual report.

Various indicators: Reported achievement did not agree with evidence provided

45. The reported achievement in the annual performance report did not agree to the supporting evidence for the following indicators: The supporting evidence provided indicated that the achievement of these indicators were as follows:

Indicator	Reported achievement	Audited value
Number of cleaning projects implemented as Letsema	6 cleaning projects implemented as Letsema in Oukasie, Letlhabile, Sunway, Damonsville, Bapong, & Orange farm by 30 June 2018	4
Formalisation of rural areas (proclaimed townships)	2 rural areas formalized (proclaimed townships) in Klipgat B & Makanyaneng ext.1 by 30 June 2018	0

Indicator: Number of households with access to refuse removal services

46. I was unable to obtain sufficient appropriate audit evidence for the reported achievement, as well as the measures taken to improve performance. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement and the measures taken to improve performance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement and the measures taken to improve performance reported in the annual report.

Indicator: Number of households (25 061) connected to main sewer line

47. Sufficient appropriate audit evidence could not be provided in some instances while in other cases, the supporting evidence provided did not agree to the reported achievement in the annual performance report. Based on the supporting evidence provided, the achievement was different from those reported in the annual performance report, I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement for this indicator.

Indicator: Percentage reduction of water distribution losses

48. The planned target for the indicator was 50% reduction of water distribution losses by replacing 6 853 water meters around Madibeng by 30 June 2018, but the reported

achievement referred to "Only 1 476 meters replaced, [21,54% of metres replaced]". Due to the inconsistent reporting, I was unable to obtain sufficient appropriate audit evidence for the reported achievement as well as measures taken to improve performance. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement and the measures taken to improve performance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement and the measures taken to improve performance reported in the annual report.

Indicator: Number of households (160 724) installed with water meters

49. Sufficient appropriate audit evidence could not be provided in some instances while in other cases, the supporting evidence provided did not agree to the reported achievement in the annual performance report. The supporting evidence provided related to the work done in the previous financial years. Furthermore, I was unable to confirm the measures taken to improve performance. I was unable to confirm the reported achievements and the measures taken to improve performance by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements and the measures taken to improve performance for this indicator.

Indicator: Number of new households (31 747) earning less than R3 500 per month with access to free basic services (water, electricity, sewer & refuse removal)

50. The planned target for the indicator was 5 000 new households earning less than R3 500 per month with access to free basic services (water, electricity, sewer & refuse removal) by 30 June 2018, but the reported achievement referred to "83.88% achievement". Furthermore, I was unable to obtain sufficient appropriate audit evidence for the reported achievement due to this inconsistency in reporting and for the measures taken to improve performance due to limitations placed on the scope of my work. I was unable to confirm the measures taken to improve performance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the measures taken to improve performance reported in the annual report.

Other matter

51. I draw attention to the matter below.

Achievement of planned targets

52. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs xx to xx of this report.

Report on audit of compliance with legislation

Introduction and scope

53. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
54. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual reports

55. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of

non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records subsequently provided, but the uncorrected material misstatements and supporting records that could not be provided, resulted in the financial statements receiving a disclaimer audit opinion.

Expenditure management

56. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
57. I could not obtain sufficient appropriate audit evidence that payments from the municipality's bank account were approved by the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.
58. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval and authorisation of funds, as required by section 65(2)(a) of the MFMA.
59. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
60. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with the supply chain regulations.
61. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest payable on long outstanding accounts.

Revenue management

62. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
63. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
64. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
65. I was unable to obtain sufficient appropriate audit evidence that accounts for service charges were prepared on the applicable basis, as required by section 64(2)(c) of the MFMA.
66. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

67. All investments were not made in accordance with the requirements of the municipality's investment policy, as the interest rates offered by the other institutions were disclosed to the VBS mutual bank in contravention of the policy, as required by regulation 3(3) of the Municipal Investment Regulations.
68. Funds were invested with a mutual bank not registered in terms of the Banks Act, 1990 (Act No. 94 of 1990), in contravention of regulation 6 of the Municipal Investment Regulations.



Consequence management

69. Some of the losses resulting from irregular and fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(a) and (b) of the MFMA.
70. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
71. Allegations of financial misconduct against senior managers were not always investigated, as required by regulation 5(3) of the Disciplinary Regulations for Senior Managers and section 171(4) of MFMA.
72. Allegations of financial misconduct laid against officials of the municipality were not all investigated, as required by section 171(4)(a) of the MFMA.
73. Allegations of financial misconduct laid against officials of the municipality were not all investigated by the disciplinary board, relevant treasury or an independent investigator or team of investigators appointed by council, as required by regulation 5(4) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

Strategic planning and performance management

74. The integrated development plan (IDP) did not reflect the key performance indicators and targets for roads and storm water as required by section 26(i) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 2(1)(e) of the Municipal Planning and Performance Management Regulations.
75. The SDBIP for the year under review included the service delivery targets and performance indicators for each quarter, but was not aligned with the budget as required by section 1 of the MFMA.
76. Key performance indicators (KPIs) were not set for each of the development priorities and objectives, as required by section 41(1)(a) of the MSA and regulation 9(1)(a) of the Municipal Planning and Performance Management Regulations.
77. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and regulation 12(1) of the Municipal Planning and Performance Management Regulations.
78. A performance management system was not adopted by council, as required by regulation 8 of the Municipal Planning and Performance Management Regulations.
79. The performance management system and related controls were not maintained as required by regulation 7(1) of the Municipal Planning and Performance Management Regulations.

Grant management

80. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated, as required by section 12(5) of the DoRA.

Human resource management

81. I was unable to obtain sufficient appropriate audit evidence that the employment contract of the municipal manager is for a fixed period of five years, as required by section 57(6)(a) of the MSA and regulation 2(3)(a) of the Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers.
82. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Procurement and contract management

83. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
84. Some of the quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b). Similar non-compliance was also reported in the prior year.
85. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
86. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Similar non-compliance was also reported in the prior year.
87. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
88. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.
89. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year.
90. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
91. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, in contravention of Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
92. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by regulation 8(2) of the Preferential Procurement Regulations.
93. Contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
94. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.
95. Other SCM role players whose close family members, partners or associates had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).

Other information

96. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
97. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
98. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
99. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.
100. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

101. I considered internal controls relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- Leadership did not enforce an ethical business culture and exercise adequate oversight responsibility regarding complete and accurate financial reporting, performance reporting, compliance and related internal controls monitoring, as well as implementation of the approved policies and procedures of council. An IT governance framework that supports and enables the business, delivers value and improves performance was also not implemented as recommended.
 - Management did not implement effective monitoring controls over proper record keeping, reconciliation of transactions and accurate processing of transactions that support reported financial information and performance on predetermined objectives. Furthermore, action plans to address prior year audit findings were not adequately implemented and monitored, as numerous instances of repeat audit findings were reported. There are no proper systems and controls in place to prevent and detect non-compliance with legislations.
 - Although the audit committee and internal audit fulfilled some of its functions, its recommendations to address the internal control deficiencies and non-compliances were



not implemented by management, resulting in the internal control environment remaining ineffective.

Other reports

102. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

103. An investigation by the Directorate for Priority Crime Investigation into fraud allegations was initiated in prior years. This investigation was not finalised at the reporting date.
104. An independent firm appointed by the municipality, investigated suspected fraud, theft, unauthorised and irregular expenditure. This investigation was not finalised at the reporting date.
105. An independent firm appointed by the municipality, investigated alleged fraud or theft of municipal revenue and other irregularities. This investigation was not finalised at the reporting date.

Auditor-General

Rustenburg

31 January 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence